Student Loan Resources

EDUCATION LOANS

Along with growing awareness about the importance of education to succeed in the knowledge economy, the cost of quality education too is growing fast. Parents too are willing to bear that extra cost to fund their childâ€™s higher education. Education loan is the most cost effective means to fund your education if you are unable to get a full scholarship or do not have a generous aunt or uncle willing to sponsor your education.
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Though most banks do provide education loan, it is the public sector banks that are in the forefront in providing education loans.
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In recent years, a large number of students, especially those pursuing professional courses in India or abroad, are availing of education loans.
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According to latest data from the Reserve Bank of India, education loans disbursed by Indian banks rose 51% to Rs 15,000 crore for the financial year ending March 2007 from Rs. 9,962 crore at the end of March 2006.
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Following are a few points you need to check while applying for an education loan.
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Repayment Options
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Like for all other loans, you have to pay interest on education loan too. But unlike other loans, education loan provides the option of a moratorium period or a â€˜repayment holidayâ€™, which means, the borrower can suspend repayment of the loan till the education course for which the loan was taken is completed.
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An education loan typically has three repayment options:
Â Education loan with repayment moratorium. Many banks stipulate repayment within 1 year after completing the course or 6 months after getting a job, which ever is earlier.
Â Â Interest alone is paid during the period of course. After the course completion, you start paying the actual EMI (principle and interest)
Â You start repaying the loan through EMI immediately after loan disbursement, in which case you could get the loan at an interest rate lower by about 1 per cent.
Â Â The repayment conditions vary from bank to bank. So, talk with as many banks as possible to get the repayment option that suits your requirements.
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Interest RatesÂ Â Â
Interest rate on education loan is usually lower than a personal loan but slightly higher than a home loan.
Some banks offer a â€˜fixedâ€™ rate of interest while others offer â€˜floatingâ€™ rate of interest on education loan.
Â If the difference between fixed and floating rate is only about 1%, it is advisable to opt for fixed rate as education loans have shorter repayment tenures of 5-7 years. Many banks do not offer genuine fixed interest rate where the interest rate remains fixed for the full tenure of the loan. They, typically offer a fixed rate loan with a reset clause.
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Â This means the bank will have the right to revise interest rate after 2 or 3 years or whenever the bank feels it necessary to increase interest rate. So make sure that you take a genuine fixed rate loan. If it is a fixed rate with reset clause, a floating rate may be a better option.
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Rather than taking a fixed rate with a reset clause, a floating rate may be a better option
Finally, the choice between a fixed and floating rate is dependent on the risk appetite of a loan taker. If you are totally risk averse and do not want to face the prospect of your EMI or repayment tenure shooting up in the event of an upward movement of interest rate, then you should definitely go for a genuine fixed rate education loan.
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However, if you strongly feel interest rate will go down during the loan tenure and is willing to take a risk on that count, you can perhaps opt for a floating rate loan.
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Many banks, especially public sector ones, have special schemes for girl students. Some banks offer 1% lower interest rate for girl students. So check with your bank about all special schemes.
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Processing Fee
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Many banks do not charge a processing fee for education loan. So if your bank asks for a processing fee, you might be able to persuade the bank to waive it.
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Prepayment Fee
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Again, in almost all cases, banks allow foreclosure or pre-payment of the education loan without chargin
g a penalty if the borrower makes the payment from his own sources. Banks charge a pre-payment penalty (usually up to 2 per cent of the loan amount) if the loan is transferred to another bank.
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Expenses covered by education loan
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Expenses covered by an education loan differ in each bank. The amount of education loan sanctioned is in relation to the expenses that you will incur wile pursuing the course. The most common expenses covered include:
Â·Fees payable to college/school/hostel
Â·Examination/Library/Laboratory fees
Â·Purchase of Books/Uniforms
Â·Caution Deposit/Building Fund/Refundable Deposit
Â·Travel Expenses/Passage money for studies abroad Â
Besides the above mentioned, there may be other costs incurred for the completion of the course. Like the cost of instruments, lap-top and other aids necessary for completion of the course. Some banks like SBI also offer loans up to Rs 50,000 for two-wheelers as part of education loan. Banks provide about 80% to 90% of the cost of education as education loan. But the important factor to check here is the education expenses that are recognized by your lender.
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If part of your education (course fee, for example) is funded through a scholarship, you could still get a loan to cover the balance expenditure. In such cases, most banks include the scholarship amount as part of the total cost of education. This way you could end up financing the entire cost of your education through loans and scholarships.
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Lastly, it is always advisable to check with as many banks as possible before finalizing your lender to get the best deal.
Funding your Study

Finance is probably the most important factor that deters people from applying to universities abroad. If only students realized that many institutes overseas offer international students loans, scholarships and graduate assistantships, they would not think twice before applying for admission.

One wonders what a university would gain from giving international students funding. Most universities value their international students more than their local students. The reasons are obvious: International students, especially Indians, are very hard working. Universities also realize the value of having international students in their classrooms. International students usually have different viewpoints and often raise the intellectual level of discussion in classrooms. Having a culturally diverse student body has added benefits for the schools. Many philanthropist Americans bequeath hundreds of thousands of dollars in funding to universities because the schools have diversity and claim to educate students from all over the world.

Universities abroad offer funding to students in various forms including graduate assistantships (GA), scholarships, tuition waivers, and sometimes loans. A graduate teaching assistantship award expects the student to work 20 hours per week aiding a professor in teaching his or her class. A graduate research assistantship award expects the student to work 20 hours per week aiding a professor or laboratory in some kind of research. GAs are the most sought after awards, because most GAs would pay for the entire tuition of the student and the student would additionally get paid for the work he or she is doing. So practically, a student would be able to earn enough money to pay for his or her living expenses as well, making the studentâ€™s contribution to tuition 0%. GAs is awarded to students based on their academic achievements and prior work experience. Tuition waivers and scholarships, on the other hand, do not expect the student to work and are awarded strictly on merit.

In case you are not awarded any funding for your education from the university, you can always consider taking a loan in India. â€œRather than taking breaking my investments and paying for my sonâ€™s education, I would rather take a loan. I can earn more money through my current investments in the stock market and hence it would be better for me to take a loan and pay for his education,â€• states Mr.Thakker whose son is planning on attending a UK university this fall.

The International Student Loan Program or ISLP created by the International Education Finance Corporation or IEFC is another loan option you can explore. The ISLP loan application process is very simple and the online application is free of cost. All you have to do is get on to their websiteâ€“www.iefc.comand fill in a loan application form. Your co-signer (who must be a US citizen or a permanent resident) has to fill in his or her details as well. Once this is done, IEFC will process your application and make a decision on your loan. Even though this is a US based organization, the loan is still available if you plan to study in a country other than the US.
A few years ago this was an excellent option for students as interest rates were very low (4-5%). However, now, when the interest rates (Wall Street prime lending rate) are close to 7.5%, this loan is not as attractive as it used to be.
Â Name of Bank Loan Amount Interest Rates Repayment State Bank of IndiaUp to 20 lacs11.5%3-7 years Dena BankUp to 15 lacs12.25%3-7 years Punjab National BankUp to 15 lacs 12.25%3-7 years United Bank of India Up to 15 lacs10.75% 5-7 years Indian Overseas Bank Up to 15 lacs12.00%3-7 years Canara BankUp to 15 lacs 11.75%3-7 years
Disclaimer: The information in this table may not be accurate. Please check interest rates and repayment options with the respective banks.

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How to get an Indian bank loan: Our state and government banks may not have updated websites or a dedicated phone line for answering customer queries. So your best bet would be to personally visit all the banks you are considering. Study the interest charged and repayment options of the student loan very carefully before deciding on a bank. In most cases, you do not have to make any repayment till you complete your education. However, during this period the bank will still charge you simple interest on your loan. Once you complete your course you can start paying your loan. Most banks will give you 3-7 years to pay your loan back. Depending on your finances it is always better to divide your expenses in such a way that you and your family pay for the living expenses and other expenses and your tuition fees can be taken as a loan. This way you will have less of a burden when you graduate.

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Eligibility of the loan: All Indian citizens, who plan to study in an accredited university and course and can show collateral security against the loan amount, are eligible to apply for a loan. Remember, some banks may even ask for collateral security, which is 15% higher than the loan amount. And some banks may have additional criteria so itâ€™s best to check with individual banks before applying for an education loan.

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Reality check: If you are an MBA student and are planning to attend a university where the total investment required is $100,000 or Rs.44 lacs, the maximum loan you can get is still Rs.20 lacs and hence you will have to shell out Rs.24 lacs on your own. The Indian education loan cannot be taken yearly, that is, you cannot take Rs.20 lacs for the first year and then again Rs.20 lacs for the second year (unless you managed to pay back the Rs.20 lacs in the first year itself). If you are an undergraduate student and are planning to attend a university in the US for a period of 4 years and need Rs.15 lacs per year, your total investment in your education would be Rs.60 lacs. In such cases, the maximum education loan of Rs.20 lacs can only cover 1/3 of your total education cost. Each student must analyse his or her funding requirements before deciding on an education loan.

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What about private banks? Private banks are not known to offer student loans. However, some private banks such as HSBC Bank breaks the norm and offers student loans. HSBC offers a maximum of Rs.25 lacs as an education loan with â€œcompetitive interest rates and special discounts exclusively designed for HSBC customers,â€• states the HSBC website.

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Are all students finding it easy to get state education loans for higher education? â€œI was made to run from pillar to post finding documents, getting wrong information and so on. The bank officials at this government bank were not at all helpful and eventually I let go of the idea of a loan and my father paid for my education,â€• says Rupesh Shah, a harried student who tried getting a loan.

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Red Alert: RBI guidelines state that students who need up to Rs.4 lacs as an education loan need not provide any collateral security. Banks can give loans up to Rs.4 lacs by checking income tax papers, and other investments. In case your bank asks you for security for a loan of up to Rs.4 lacs you can approach the RBI to intervene.

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Will student loans affect your visa? Visa officials have continuously stressed that student loans do not reflect negatively on your visa application. Therefore, if you can show how you plan to repay the loan after your education, you should have no problem in showing a loan as your source of funding during your visa interview.

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Getting your student loan from a nationalized bank may not be easy. But if you start early, do your homework right and have your papers in order, you should have no problem in getting your student loan